

12 September 2019

The Commissioners
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Sent by: online lodgement

Dear Commissioners

**Wholesale Demand Response Mechanisms
ERC0247
Draft Decision**

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views to the issues raised in the AEMC draft decision addressing the mechanism to permit wholesale demand responses (WDR) in the NEM wholesale electricity market.

The MEU considers it is worth repeating that:

-) End users only interface with the electricity market because they must, not because they are wedded to being actively involved
-) End users have their own markets to which they must devote most of their attention, rather than being a part of resolving the electricity market issues
-) Providing demand response is not a costless exercise for those providing the demand response and, while these providers might earn some financial benefit from providing the demand response, their preference would be to generate the maximum reward from their assets which remain idle when providing demand response
-) Even those end users that do not provide any demand response benefit from the demand response provided by others, in terms of lower costs of electricity and increased reliability of supply. Because of this, it must be highlighted that they, too, are beneficiaries of the demand response provided by others.
-) The MEU recognises that some demand side responses can be provided at very low cost and with minimal impact on the end users providing this service. With this in mind, the MEU accepts that demand side responsiveness should be a part of the electricity market.

The MEU highlights that it is these considerations that lead to its conclusions and the following detailed observations regarding the draft decision.

Overall, the MEU considers that the draft decision, while still needing some further refinement as detailed in this response, provides a great step forward and the MEU is very supportive of it.

The MEU notes that it is a signatory to a letter provided by one of the rule change proponents (Public Interest Advocacy Centre) and which states that the MEU and many other parties representing end users of electricity consider that the draft rule provided by the AEMC is deficient in two significant aspects, viz:

-) The demand response mechanism should be introduced before July 2022
-) All consumers ,including households should be allowed to participate from the outset

However, in addition to these two very important aspects, the MEU has other concerns about the draft rule.

Requirements imposed on WDR providers

The MEU counsels the AEMC not to apply too many requirements and conditions on WDR providers for the WDR services. The MEU comments that its members report that the conditions and requirements applied by AEMO for the provision of RERT services (for example) are considered so onerous that some end users have elected not to provide RERT services even though they are quite capable of doing so at relatively low cost.

WDR is now being seen as a key element in the electricity market yet it is a service provided by parties where their primary focus is in other markets, and whose involvement in the electricity market as such, is at best peripheral. Therefore, by applying arduous and perhaps unnecessary conditions and requirements on WDR providers, this has the potential to reduce the amounts of WDR that might otherwise be made available. Any reduction in the supply of WDR has the risk that prices for its supply will increase by unnecessarily reducing the numbers of parties prepared to be involved, reducing competition for its supply.

Bearing in mind that WDR will never be a major source of electricity supply, the MEU considers that the new rule should impose just sufficient (ie minimal) conditions and requirements on WDR providers.

Other demand side services

The draft rule highlights that there are a variety of demand side services that can be supplied to different elements of the electricity market (eg network, wholesale, emergency, ancillary services) but the MEU considers that care needs to be taken so that the wholesale demand responses are not unnecessarily conflated with these other services.

If a single action of demand response provides a number of separate services at the same time, then probably each service should be treated independently. The MEU is concerned that the draft rule would prevent this occurring. For example, an end user might have a contract with a network to provide load shedding when there is stress on the network and by doing so preclude unnecessary investment in the network for assets that might lie idle for much of the time. At the same time, the end user might offer demand responsiveness to the wholesale market. There is no certainty that the wholesale market and the network will call for the same amount of demand response at the same time. In fact, it is more likely that the end user will provide the network service at a time not coincident with the wholesale demand response. This means the WDR provider has incurred costs at different times for effectively different services.

Equally, the MEU recognises that there will be times when the WDR provider will be able to only provide the service once. For example, if an end user has provided WDR to be bid into the wholesale market, it would not be in a position to then provide the same demand reduction to provide RERT. The MEU does not consider that an end user providing demand response should be paid when the service is not provided.

However, the same end user could provide multiple services from different parts of its operations and the rules need to be flexible enough to recognise this reality. For example, an end user might have part of its demand that is able to provide WDR but another part of its load that can provide RERT or FCAS. For example, in a paper mill, the chipping plant and wood yard might be used to provide WDR but the paper production line used to provide RERT.

The MEU considers that the end user DR provider should receive payment for the different services it actually provides and there should be flexibility in the how the end user can provide the different services. There may be occasionally a coincidence of the response for two different needs. To preclude recognition for the different services when it is more likely that the different services will be provided at different times would have the potential for end users not to provide one or the other demand response service, to the overall detriment of the electricity market.

Earlier implementation

At a recent teleconference workshop, AEMO advised that they consider a form of the demand response mechanism could be implemented by September 2021. The MEU concurs that an earlier implementation is possible.

With the most recent Electricity Statement of Opportunities (2019 version), there is highlighted potential for significant shortages of supply for Victoria in summer of 2019/20 with increased risk of supply shortages in NSW in 2022 following the closure of Liddell power station.

While it is possible that the introduction of the WDR mechanism in July 2022 would meet the forecast increase in risk of insufficient supply in NSW, the MEU points out that there are two major risk elements inherent in this forecast.

1. MEU members report that there is always a significant risk of overrun in time when developing new systems, so there is a risk that delaying the start of the program, the new systems might not even be in place by July 2022.
2. As occurred in Victoria in 2019, the long term but unplanned outage of significant amounts of generation can occur. Having the WDR operational as early as possible (whether as an interim operation as suggested by AEMO or in full “working order”) can only be to the benefit of consumers.

The MEU considers that the draft rule should be amended to require AEMO to implement the WDR mechanism at the earliest possible time.

Requirements of early commencement

In the discussions with AEMO about earlier commencement, it was proposed that SCADA data could be used to enable accurate measurements of load shedding provided. The MEU notes that not only is SCADA data less accurate than meter data, but it is not universally connected to all end users. This means that there is either a significant cost that will be incurred by the providers of the WDR in order to provide the service or there will be much less WDR able to be provided.

The MEU considers that the AEMC needs to look into this aspect in more depth and assess whether the SCADA data is needed and if it is, whether the costs for its provision should be socialised rather than imposing a further cost on the WDR providers.

Hedging risks for retailers

The MEU points out that there has been considerable opposition by the retailers to the proposed WDR process. One of the issues raised has been a view that their hedging risks will be increased.

The MEU notes that under the draft rule, retailers will only be allowed to bill end users based on the end user’s actual consumption (ie after the WDR has been provided). The MEU points out that the major risks identified by retailers in their offers to end users have been related to increased consumption as MEU members report that most retailers apply a cap (typically 10%) on any overrun in consumption¹.

This implies that the hedging risk lies mostly with overrun and having the retailer exposed only to hedging risk relating to an underrun minimises their hedging risk

¹ although some retailers also apply a minimum take

considerably. Further, as the reduction in consumption will be very modest in relation to the total amount of electricity actually used by end users, any loss that retailers face will be even smaller. The MEU considers that retailers should not be able to seek any restitution for the loss in supply they have that results from the supply of WDR.

The MEU also points out that retailers can recover any such loss if they provide competitive offers for the WDR that the end user is prepared to provide.

Two sided market

The AEMC states that it considers the draft rule provides a transition to a two sided market. The MEU points out that most end users do not see that they really want to be active in the electricity market as is implied by a two sided market. End users see that electricity is so pervasive in its use and such an essential element of today's and future operations for all consumers, to imply it could move to a fully functioning two sided market is a very bold assumption.

In practice, a two sided market implies that the buyer of the product can elect not to take any supply when the price or scarcity reaches a certain level. Electricity usage does not lend itself to such a position in that, even at extreme prices, the vast majority of end users do need to have some supply in order to maintain their service to other markets. For example, if telecommunication providers elected not to take supply, all communications cease nationally, causing massive disruption. The MEU does not consider that an essential service can ever move to a true two sided market.

With this in mind, the MEU considers that the concept that the demand response program is a transitional tool to reach a two sided market is misplaced. This means that the demand response should be assumed to be an enduring element of the electricity market into the future and that the rules should reflect this reality.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at davidheadberry@bigpond.com or (03) 5962 3225

Yours faithfully



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